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Global economy 'back on track'

By Chris Giles in London

Surging business confidence in rich countries has put the global economy "back on track" to resume a steady recovery, according to the latest Brookings Institution-Financial Times tracking index.

The improvement in outlook has come as a surprise over the summer, but the relatively upbeat message from economic data over the past few months is vulnerable to many threats on the horizon which could again kill the emerging confidence.

As the International Monetary Fund prepares for its annual meetings this week, the greatest fear among most economies is that mistakes in US fiscal or monetary policy will derail the fragile global upswing.

Professor Eswar Prasad, a senior fellow at the Brookings Institution said: "It may be premature for policy makers to declare victory as the recovery is still tenuous and just a shock or two away from turning into another slump."

Finance ministers and central bankers will gather in Washington this week with US policy in the spotlight as the US government shutdown and a looming debt ceiling crisis threatens to undermine the economy, and following hints of a monetary tightening by the Federal Reserve caused a summer of turmoil in emerging economies.

Since the last time the fund met in April, the IMF has performed a U-turn in its assessment of the global economy, now thinking that the advanced world rather than emerging economies have the most momentum in a weak global recovery. Last week, Christine Lagarde, IMF managing director dropped talk of a "three-speed recovery" with poorer countries in the lead for talk of "multiple new transitions".

In a preview of the pressure likely to be heaped on the US at the meetings, Ms Lagarde warned the Fed that it had a "special responsibility" to tighten policy in an orderly way and "conduct a dialogue with others".

Interactive: The Tiger Index

Tracking Indices for the Global Economic Recovery, the Brookings Institution-Financial Times index of the world economy

Tiger (Tracking Indexes for the Global Economic Recovery) shows the global economy "being borne along by surging business and consumer confidence in advanced economies, and stabilisation in the growth of emerging markets", said Prof Prasad.

Having lagged behind emerging economies since the financial crisis, advanced economies now score higher in the financial and confidence components of the index.

The Tiger index combines measures of real economic activity, financial variables and indicators of confidence, according to the degree to which they are all moving up or down at the same time. Using sophisticated statistical methods it can capture similar movements of data which are measured on a very different basis and across many countries.

The overall levels of the index, which still languish well below the initial recovery period in late 2009 and early 2010, have nevertheless improved from their recent lows in mid-2012. A reduction in fear of an imminent eurozone collapse, alongside gradually improving data, is the most important factor in the upswing in data.

While emerging economies have stemmed some of the loss of momentum of earlier this year, particularly in China, many emerging economies remain vulnerable to a loss of private sector confidence or capital flight. "The volatility of capital flows engendered by the Fed's vacillations on its tapering measures have added to the difficult external circumstances these countries continue to face," Prof Prasad added.

Although the eurozone will continue to face international pressure to improve the health of its banking system and restore employment to its peripheral economies, representatives are pleased to be out of the immediate spotlight for criticism. UK officials, who see Britain's economy "turning a corner" are looking forward to hearing whether the IMF will tone down its criticism of its policies

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